

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name ALLEGAN COUNTY CMH BOARD	County ALLEGAN
Fiscal Year End SEPTEMBER 30, 2006	Opinion Date JANUARY 29, 2007	Date Audit Report Submitted to State MARCH 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

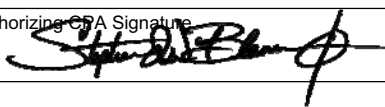
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 616-975-4100		
Street Address 2330 EAST PARIS AVENUE SE		City GRAND RAPIDS	State MI	Zip 49546
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

**ALLEGAN COUNTY COMMUNITY
MENTAL HEALTH BOARD**

**FINANCIAL STATEMENTS
AND
SINGLE AUDIT**

FOR THE YEAR ENDED SEPTEMBER 30, 2006

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

INDEPENDENT AUDITORS' REPORT

January 29, 2007

To the Allegan County Community
Mental Health Board
Allegan, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Allegan County Community Mental Health Board (the "Board"), a special revenue fund and internal service fund of Allegan County, Michigan, as of and for the year ended September 30, 2006, which collectively comprise the Board's financial statements as listed in the table of contents. These financial statements are the responsibility of the Allegan County Community Mental Health Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Allegan County Community Mental Health Board funds and do not purport to, and do not present fairly the financial position of Allegan County, Michigan as of September 30, 2006 and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Allegan County Community Mental Health Board, as of September 30, 2006, and the respective changes in financial position and cash flows thereof and the budgetary comparison for the major special revenue fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2007, on our consideration of the Allegan County Community Mental Health Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Allegan County Community Mental Health Board's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH SERVICES
Management's Discussion and Analysis
Fiscal Year October 1, 2005 – September 30, 2006

The following Management Discussion and Analysis (MD&A) provides an introduction to the financial statements of the Allegan County Community Mental Health Services (ACCMHS) agency for the fiscal year ended September 30, 2006. This presentation is an effort to better inform the reader of the financial statements and presents an analysis and overview of the financial activities and condition of the organization during the past fiscal year.

The Allegan County Community Mental Health Services is an official agency of Allegan County which provides programs, services and supports for persons with severe and persistent mental illness and persons with developmental disabilities that are administered pursuant to the provisions of the Michigan Mental Health Code.

The County Board of Commissioners appoints members to the Mental Health Board, which governs the agency. The County also provides financial support to the agency on an annual basis and the agency is considered a department of Allegan County for reporting purposes in the audit for the County of Allegan.

The information contained in this MD&A should be considered in conjunction with the information contained in the financial audit conducted by Rehmann Robson for the period ended September 30, 2006. This MD&A contains information on the basic financial statements of the agency together with any required explanation, which would be essential to acquire a full understanding of the data contained therein.

Funding Background

In 1998, the Community Mental Health system went from a fee-for-service system to a capitated arrangement. In such an arrangement, each CMH receives a payment each month for each Medicaid recipient in the county. This payment is designed to cover the cost of providing mental health care to those Medicaid recipients in need of such care. A similar arrangement, using a different formula – primarily historical, provides funding to the CMH system to serve the non-Medicaid residents in the county. Under this arrangement, our revenue does not change when we serve more people or provide more care. It changes only when the number of Medicaid enrollees in the county increases or decreases.

Prior to the switch to a capitated system, for nearly two decades, the CMH system in Michigan received an ever-increasing share of its funding via the federal Medicaid system, on a fee-for-service basis. Therefore, the more services we provided, the more money we received. We received approximately one federal dollar for every state dollar that was spent serving a Medicaid recipient. State funding during this period was not increased. The state funds used to match the federal dollars were those state funds that were already in our budget.

The CMH system took on a number of mental health responsibilities formerly held by the state, including the community placement of former state hospital residents, AIS homes, utilization management of and payment for local inpatient psychiatric hospital care. These were the primary sources of revenue growth for the CMH system over the past decades. This constitutes a transfer of responsibility more than a true increase in revenue. No new state dollars were added to the system during this time, so true revenues remained flat or decreased.

ACCMHS has been committed to remain clinically, organizationally and fiscally strong despite flat funding, unavoidable increases in costs, increased demand for services and the severity of the needs of those whom we serve. We have been committed to and successful in making budget cuts when necessary that avoid harming consumers.

Beginning October 1, 2002, the Michigan Department of Community Health contracted with a designated Prepaid Inpatient Health Plan (PIHP) for Medicaid services within a designated geographic region. Kalamazoo Community Mental Health Services was awarded the contract for the four county region of Kalamazoo, Allegan, Cass and St. Joseph counties. Kalamazoo then entered into a Medicaid sub-contract agreement with each of the CMHSP's. Separate General Fund contracts were issued by the state to each individual Community Mental Health Service Program (CMHSP).

This contracting arrangement remained the same through fiscal year 2006.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to ACCMHS's basic financial statements. The basic financial statements comprise three components: Government-wide financial statements, fund financial statements and notes to the financial statements.

The **government-wide financial statements** are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business, that focus on operations of the organization as a whole.

The Statement of Net Assets presents information of all of Allegan County Community Mental Health Services "assets" (what is owned), "liabilities" (what is owed) and the "net assets" (the resources that would remain if all obligations were settled). Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis, meaning that revenues are recognized when earned, not when received and expenses are recognized when incurred, not when paid.

The **fund financial statements** report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. ACCMHS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds are divided into two categories: governmental funds and proprietary funds.

Governmental fund statements have a narrower focus than that of the government-wide financial statements in that its focus is on the short-term movement of spendable resources available at the end of the fiscal year.

The following government-wide statement is included in this discussion with comparative totals for the prior fiscal year.

	2006	2005
Assets		
Cash & cash equivalents	\$1,746,820	\$2,780,616
Receivables	654,996	475,651
Prepaid items	240,906	139,781
Capital assets, net of accumulated depreciation	208,639	268,463
Total Assets	2,851,361	3,664,511
Liabilities		
Accounts payable	957,278	2,345,008
Accrued expenses	412,473	-
Accrued compensated absences	321,139	-
Unearned revenue	108,429	98,498
Total Liabilities	1,799,319	2,443,497
Net Assets		
Invested in capital assets	208,639	268,463
Unrestricted net assets	843,403	952,551
Total Net Assets	\$1,052,042	\$1,221,014

Several significant variances were revealed in this statement, which are explained as follows:

	2006	2005
Cash & cash equivalents	\$1,746,820	\$2,780,616
Receivables	654,996	475,651
Prepaid items	240,906	139,781
Unearned revenue	108,429	98,498
Accounts payable	957,278	2,345,008
Unrestricted net assets	843,403	952,551

Decreases in cash & cash equivalents are reflective of decreases in the accounts payable and increases in accounts receivable. The significant decrease in accounts payable is indicative of the fact that there is no account payable for unspent Medicaid this year. In fact, the increase in accounts receivable reflects an amount due from the PIHP for Medicaid services provided beyond capitation funds received. Increase in prepaid items include a fiscal year 2007 insurance premium paid in fiscal year 2006. Prepaid items include the amount of depreciable equipment purchased, but as yet un-depreciated and should be considered to be a restriction of fund balance.

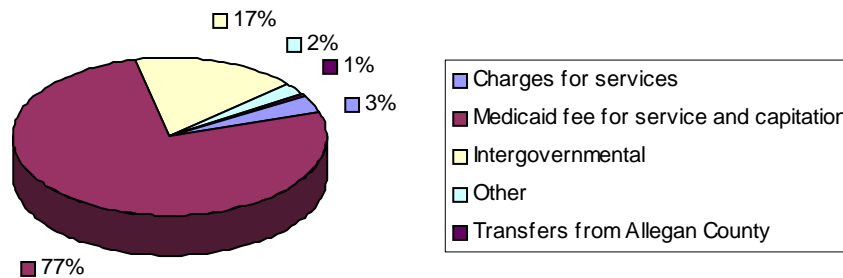
These activities contributed to a decrease to the fund balance of the special revenue fund of \$15,627. There was also a \$77,342 decrease in the self-insurance fund. At the government-wide level, there was a decrease of \$168,972.

The following government-wide statement is included in this discussion with comparative totals for the prior fiscal year.

	2006	2005
Program Revenues		
Charges for services	\$ 428,344	\$ 576,562
Medicaid fee for service and capitation	13,601,279	13,100,201
Intergovernmental	3,051,322	2,910,261
Other revenue	488,621	422,008
Total Revenue	<u>17,569,566</u>	<u>17,009,032</u>
Expenses		
Health and welfare	<u>17,944,063</u>	<u>17,166,758</u>
Total Expenses	<u>17,944,063</u>	<u>17,166,758</u>
Excess of Expense over Revenues before transfers	(374,497)	(157,726)
Transfers from other funds of Allegan County	<u>205,825</u>	<u>150,000</u>
Change in net assets	(168,972)	(7,726)
Net Assets at the Beginning of the Year	<u>1,221,014</u>	<u>1,228,740</u>
Net assets at the End of the Year	<u><u>\$1,052,042</u></u>	<u><u>\$1,221,014</u></u>

There were no significant variances revealed in this statement.

Revenues and other financing sources - Governmental Activities



Budgetary Highlights

The budget for any particular fiscal year is developed several months prior to notification of funding levels. The ACCMHS Board reviews and approves a budget in September for an October 1 start date. Development of the annual budget begins in June, four months prior to its implementation. The funding levels from the State and other sources are often not received or known until well after the start of a fiscal year. Especially during times of economic stress, these amounts are subject to change during the fiscal year.

The differences between the original and final budget did not change the total budget, merely reflected re-categorizing expenditures.

Ultimately, ACCMHS experienced an overall increased level of revenues; however, overall expenditures, while under budget, exceeded revenues. Expenses for Medicaid services exceeded Medicaid capitation funding received resulting in a Medicaid receivable from the PIHP in the amount of \$229,184. State general fund expenditures exceeded available general funds by \$38,108 which was covered using local funds.

Capital Asset and Debt Administration

Capital Assets

At September 30, 2006, the ACCMHS had \$208,639 invested in equipment and vehicles. This amount represents a net decrease of approximately \$59,824 over last year. Current year audited financial statement depreciation expense was \$95,384, \$27,140 of which was reflected in the general ledger as current year expense for allowable depreciation of items over \$5,000 and used in contract settlement with the Michigan Department of Community Health (MDCH).

	<u>2006</u>	<u>2005</u>
Furniture and equipment	\$ 147,483	\$ 269,726
Vehicles	490,715	523,083
Accumulated depreciation	<u>(429,559)</u>	<u>(524,346)</u>
Total capital assets	<u>\$ 208,639</u>	<u>\$ 268,463</u>

Factors Impacting the Future

The greatest impact to the agency's future funding is the contract with the Michigan Department of Community Health. The funding levels from the State are in turn impacted by the State of Michigan's economy, potential Executive Order reductions issued by the Governor, and the approval of waiver provisions by the Centers of Medicare and Medicaid Services. Allegan County government is also experiencing budget reductions, including but not limited to state reductions in revenue sharing. This has resulted in reductions in the local match allocation to ACCMHS.

Medicaid funding, while received by ACCMHS through a sub-capitation agreement with the PIHP, is dependent on the number of persons that meet Medicaid eligibility criteria. In recent years, Allegan County, as well as the other counties in the affiliation, have experienced an increase in the numbers of Medicaid enrollees, which has slightly increased Medicaid revenues. However, CMHSP's are also required to meet any increased demand for the mental health needs of those Medicaid enrollees who meet the eligibility criteria for services and supports. Conversely, should there be a reduction in the number of Medicaid eligible persons, our funding level would reduce. Any reduction in the Medicaid population, however, may not impact the number of persons receiving our services. Medicaid funding may not be utilized for services to non-Medicaid consumers.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

Statement of Net Assets and Special Revenue Fund Balance Sheet

September 30, 2006

	<u>Special Revenue Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,548,629	\$ 198,191	\$ 1,746,820
Receivables:			
Outpatient fees	38,504	-	38,504
Medicaid	18,891	-	18,891
Medicare	26,479	-	26,479
Insurances	74,889	-	74,889
Industrial contracts	3,270	-	3,270
Other, net of allowance of \$4,494	492,963	-	492,963
Prepaid items	217,809	23,097	240,906
Capital assets, net of accumulated depreciation	-	208,639	208,639
	<u>\$ 2,421,434</u>	<u>429,927</u>	<u>2,851,361</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities			
Accounts payable	\$ 957,278	-	957,278
Accrued expenses	240,908	171,565	412,473
Interfund payable	54,383	(54,383)	-
Accrued compensated absences	-	321,139	321,139
Unearned revenue	9,819	98,610	108,429
	<u>1,262,388</u>	<u>536,931</u>	<u>1,799,319</u>
Fund balance			
Reserved for prepaid items	217,809	(217,809)	-
Unreserved - undesignated	941,237	(941,237)	-
	<u>1,159,046</u>	<u>(1,159,046)</u>	<u>-</u>
	<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$ 2,421,434</u>	
Net assets			
Invested in capital assets		208,639	208,639
Unrestricted		843,403	843,403
	<u>TOTAL NET ASSETS</u>	<u>\$ 1,052,042</u>	<u>\$ 1,052,042</u>

The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Reconciliation of Special Revenue Fund Balance Sheet
to Statement of Net Assets**

September 30, 2006

Fund balance - Special Revenue Fund	\$ 1,159,046
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - equipment and vehicles	638,198
Deduct - accumulated depreciation	(429,559)

Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds.

Deduct - compensated absences	(321,139)
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Assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add - cash, prepaid expenses, and internal balances	275,671
Deduct - accrued self-insurance claims and unearned revenue	(270,175)

Net assets of governmental activities	<u><u>\$ 1,052,042</u></u>
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The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Activities and Special Revenue Fund Revenues,
Expenditures and Changes in Fund Balance**

For the Year Ended September 30, 2006

	Special Revenue Fund	Adjustments	Statement of Activities
Revenue			
Medicaid fee for service and capitation	\$ 13,601,279	\$ -	\$ 13,601,279
Intergovernmental:			
Federal	714,708	-	714,708
State	2,336,614	-	2,336,614
Charges for services:			
Other insurance	217,690	-	217,690
Other service fees	210,654	-	210,654
Interest	102,125	6,093	108,218
Other revenues and reimbursements:			
Revenue contracts	63,653	-	63,653
Other	316,750	-	316,750
	<u>17,563,473</u>	<u>6,093</u>	<u>17,569,566</u>
Expenditures/expenses			
Health and Welfare:			
Personnel costs	7,930,431	99,614	8,030,045
Operating costs	9,766,089	148,229	9,914,318
Capital outlay	88,405	(88,405)	-
	<u>17,784,925</u>	<u>159,438</u>	<u>17,944,363</u>
Excess (deficiency) of revenue over (under) expenditures/expenses	(221,452)	(153,345)	(374,797)
Other financing sources			
Transfer in - County appropriation	205,825	-	205,825
Net change in fund balance/change in net assets	(15,627)	(153,345)	(168,972)
Fund balance/net assets			
Beginning of year	1,174,673	46,341	1,221,014
End of year	<u><u>\$ 1,159,046</u></u>	<u><u>\$ (107,004)</u></u>	<u><u>\$ 1,052,042</u></u>

The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Reconciliation of the Special Revenue Fund Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities**

For the Year Ended September 30, 2006

Net change in fund balance - Special Revenue Fund	\$ (15,627)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Special revenue funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	35,560
Deduct - depreciation expense	(95,384)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Deduct - increase in accrual for compensated absences	(16,179)
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Interest income of the internal service fund is recorded as an increase to interest income of governmental activities.

6,093

Net operating (loss) of the internal service fund is recorded in governmental activities in the statement of activities.

(83,435)

Change in net assets of governmental activities

\$ (168,972)

The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Revenue, Expenditures and Changes in Fund Balance -
Special Revenue Fund Budget and Actual**

For the Year Ended September 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Medicaid fee for service and capitation	\$ 14,166,880	\$ 14,166,880	\$ 13,601,279	\$ (565,601)
Intergovernmental:				
Federal	622,415	622,415	714,708	92,293
State	2,313,860	2,313,710	2,336,614	22,904
Charges for services:				
Other insurance	176,210	176,210	217,690	41,480
Other service fees	225,045	225,045	210,654	(14,391)
Interest	36,250	36,250	102,125	65,875
Other revenues and reimbursements:				
Revenue contracts	67,455	67,455	63,653	(3,802)
Other	332,725	332,725	316,750	(15,975)
Total revenue	17,940,840	17,940,690	17,563,473	(377,217)
Expenditures				
Health and welfare:				
Personnel costs	7,827,605	7,993,205	7,930,431	62,774
Operating costs	10,300,705	10,120,105	9,766,089	354,016
Capital outlay	42,500	57,500	88,405	(30,905)
Total expenditures	18,170,810	18,170,810	17,784,925	385,885
Revenue over (under) expenditures	(229,970)	(230,120)	(221,452)	8,668
Other financing sources				
Transfer in - county appropriation	229,970	230,120	205,825	(24,295)
Net changes in fund balance	-	-	(15,627)	(15,627)
Fund balance, beginning of year	1,174,673	1,174,673	1,174,673	-
Fund balance, end of year	\$ 1,174,673	\$ 1,174,673	\$ 1,159,046	\$ (15,627)

The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Net Assets
Internal Service Fund**

September 30, 2006

	Self Insurance Fund
	<hr/>
Current assets	
Cash and cash equivalents	\$ 198,191
Due from other funds	54,383
Prepaid items	<hr/> 23,097
Total assets	<hr/> 275,671
Current liabilities	
Accrued self-insurance claims	171,565
Unearned revenue	<hr/> 98,610
Total liabilities	<hr/> 270,175
Net assets - unrestricted	<hr/> \$ 5,496 <hr/>

The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Revenue, Expenses and Changes in Fund Net Assets
Internal Service Fund**

For the Year Ended September 30, 2006

	Self- Insurance Fund
	<hr/>
Operating revenue	
Premiums	\$ 1,376,724
	<hr/>
Operating expenses	
Claims	1,184,841
Management fees	126,968
Insurance premiums	148,350
	<hr/>
Total operating expenses	1,460,159
	<hr/>
Operating loss	(83,435)
Nonoperating income	
Interest	6,093
	<hr/>
Change in net assets	(77,342)
Net assets, beginning of year	82,838
	<hr/>
Net assets, end of year	\$ 5,496
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

**ALLEGAN COUNTY
COMMUNITY MENTAL HEALTH BOARD**

**Statement of Cash Flows
Internal Service Fund**

For the Year Ended September 30, 2006

	Self- Insurance Fund
Cash flows from operating activities	
Receipts from other funds	\$ 1,420,951
Claims paid	(1,131,636)
Payments to insurance companies	(275,318)
	<hr/>
Net cash provided by operating activities	13,997
Cash flows from investing activities	
Interest income	6,093
Cash and cash equivalents, beginning of year	<hr/> 178,101
Cash and cash equivalents, end of year	<u><u>\$ 198,191</u></u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (83,435)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Changes in assets and liabilities which provided (used) cash:	
Due from other funds	(54,383)
Prepaid items	(1,595)
Accrued self-insurance claims	54,800
Deferred revenue	98,610
	<hr/>
Net cash provided by operating activities	<u><u>\$ 13,997</u></u>

The accompanying notes are an integral part of these financial statement.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Allegan County Community Mental Health Board (the “Board”) was created by resolution of the Allegan County Board of Commissioners pursuant to Act 54 of the Public Acts of 1963, as amended. The Board, which is composed of certain elected County officials and other individuals, is responsible for serving the mental health needs of Allegan County residents in accordance with its full management contract with the Michigan Department of Community Health (MDCH) and the Michigan Mental Health Code.

Reporting Entity – These financial statements represent the financial condition and the results of operations of a special revenue fund and an internal service fund of Allegan County, Michigan (the “County”) and are an integral part of that reporting entity. The Board is not a component unit of Allegan County or any other reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*.

Government-wide and Fund Financial Statements - The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Allegan County Community Mental Health Board. For the most part, the effect of interfund activity has been removed from these statements.

A separate column is presented for the special revenue fund (major fund) on the statement of net assets and governmental funds balance sheet and statement of activities and governmental fund revenues, expenditures and changes in fund balance. This separate column takes the place of the government funds financial statement presentation. This alternative method of presenting major fund information is utilized because only one major fund (special revenue fund) is utilized by the Board. The statement of net assets, statement of revenues, expenses and changes in fund net assets and statement of cash flows present the internal service fund.

Governmental Activities

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Internal Service Fund – The Self-Insurance Fund accounts for activities which provide health insurance and medical reimbursements to all qualified employees.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The government-wide financial statements (statement of net assets and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

Intergovernmental revenue, charges for services and other revenue associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to the special revenue fund for insurance services. Operating expenses for internal service funds include the cost of claims, administration, and reinsurance. Any revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents – The Board's cash consists of cash on hand, demand deposits and deposits with the Allegan County Treasurer.

Receivables – Receivables consist primarily of amounts due from the State of Michigan for Medicaid billings and grant reimbursements under the terms of its full management contract and from other agencies, governments and organizations for services rendered. Amounts receivable under the full management contract are subject to a cost settlement process and, as such, provision has been made by the Board for adjustments as estimated by management.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets are not capitalized in the special revenue fund used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in the special revenue fund.

Capital assets, which include office equipment and vehicles, are reported in the government wide financial statements. Capital assets are defined as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded for reporting purposes at historical cost or estimated historical cost if constructed or purchased.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	3-7
Vehicles	5

Budgetary Accounting – The Board's special revenue fund is under formal budgetary control and follows both the County and MDCH's annual budget process in establishing the budgetary data presented in the financial statements. The annual fiscal budget is adopted on a basis consistent with generally accepted accounting principles and the requirements of the MDCH.

Transfer In-County Appropriation

This transfer represents a subsidy provided by the County as a local match for various services.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Board's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a program basis. The approved budgets of the Board for these budgetary funds were adopted at the activity level within a function. There were no budgetary overages at the legal level of budgetary control.

3. CASH AND CASH EQUIVALENTS

Deposits

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<u>Governmental Activities</u>
Cash and cash equivalents	<u>\$1,746,820</u>

These deposits are in one (1) financial institution located in Michigan. All accounts are in the name of the Board. They are recorded in the Board's records at fair value.

Deposit Risk

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned. State law does not require and the Board does not have a policy for deposit custodial credit risk.

Deposits of the Board held by Allegan County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Board. All accounts are in the name of the Board and a specific fund or common account. They are recorded in the Board's records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

Statutory Authority

The Board is authorized by the governing body to invest surplus funds, in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through 12/31/1997.

4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Equipment	\$ 165,223	\$ -	\$ 17,740	\$ 147,483
Vehicles	627,586	35,560	172,431	490,715
Total	792,809	35,560	190,171	638,198
Accumulated depreciation				
Equipment	77,044	70,659	17,740	129,963
Vehicles	447,302	24,725	172,431	299,596
Total	524,346	95,384	190,171	429,559
Capital assets, net	\$ 268,463	\$ (59,824)	\$ -	\$ 208,639

5. PENSION PLANS

Allegan County Community Mental Health Board maintains both a defined benefit plan and a defined contribution plan for its eligible employees. New employees have the option of participating in the defined contribution plan. Individuals employed before the defined contribution plan was in effect were offered the opportunity to convert to the defined contribution plan.

Defined Benefit Plan

Plan Description – The Board’s defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Board participates along with Allegan County in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

Funding Policy - The Board is required to contribute at an actuarially determined rate; the current rate is 0.0% of annual covered payroll. Employees are also required to contribute 4.0%. The contribution requirements of the Board are established, and may be amended, by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Board, depending on the MERS contribution program adopted by the Board.

Annual Pension Cost - During the year ended September 30, 2006, the Board made no contributions to the plan, which is based on actuarial projections of funding requirements. Employee contributions for the same period were \$13,714.

Additional historical information is not available for the Boards' participation in MERS because a separate actuarial valuation has not been completed. The actuarial data is included in Allegan County's valuation.

Defined Contribution Plan

The Board's defined contribution plan is offered through MERS and administered by ICMA. Benefit provisions and contribution requirements are established and may be amended by Allegan County Community Mental Health Board. The Board makes contributions of 4% of each participant's salary and will match 100% up to an additional 2% of salary. Employees may make voluntary contributions up to 17% of their salary. The covered payroll for the plan was approximately \$5,037,000. Total contributions for the year ended September 30, 2006, were \$426,772 (\$134,050 employee and \$292,722 employer; 2.6 percent and 5.8 percent of covered payroll, respectively).

6. SELF-INSURANCE PROGRAMS

The Board provides health, dental, long-term disability, short-term disability, and life insurances to all its eligible employees through the Self-Insurance Internal Service Fund. The self-insured programs are administered by a third-party administrator who provides claims review and process services as well as illustrated premium rates, which are anticipated, over time, to approximate the actual cost of benefits.

Premiums for self-insured programs are paid into the internal service fund based on actual or illustrated rates. These premiums are available to pay claims, claim reserves, excess coverage and administrative costs. Excess coverage insurance purchased by the Board covers individual claims in excess of \$30,000 annually, subject to an aggregate lifetime limitation of \$1,000,000 for medical claims only. The liability at the end of the year is based on claims already incurred and reported as well as an estimate for claims incurred but not reported at September 30, 2006.

The change in the claims liability for the years ended September 30, 2005 and 2006 is as follows:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Liability
2005	\$ 79,959	\$ 932,621	\$ 895,815	\$ 116,765
2006	116,765	1,184,841	1,130,041	171,565

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

NOTES TO FINANCIAL STATEMENTS

7. CONCENTRATIONS AND ECONOMIC DEPENDENCY

Approximately 90% of total revenue and 11% of total accounts receivable are amounts, either directly or indirectly, paid by or due from the Michigan Department of Community Health.

8. LITIGATION

In the normal course of its activities, the Board has become a party in various legal actions. Management of the Board is of the opinion that the outcome of such actions will not have a material effect on the financial position of the Board and, therefore, has not reflected loss reserves in the financial statements.

* * * * *

SINGLE AUDIT SECTION



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

January 29, 2007

To the Allegan County Community
Mental Health Board
Allegan, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Allegan County Community Mental Health Board (the "Board") Allegan County, Michigan, as of and for the year ended September 30, 2006, which collectively comprise the Board's financial statements as listed in the table of contents and have issued our report thereon dated January 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

January 29, 2007

To the Allegan County Community
Mental Health Board
Allegan, Michigan

Compliance

We have audited the compliance of Allegan County Community Mental Health Board (the "Board"), Allegan County, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Board's compliance with those requirements.

In our opinion the Board complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the Board is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Board's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management, the Board, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Allegan County Community Mental Health Board
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2006

Federal Agency/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
Passed-through Michigan Department of Community Health: Supportive Housing Program	14.235	\$ 42,433
U.S. Department of Health and Human Services		
Passed-through Michigan Department of Community Health: Projects for Assistance in Transition from Homelessness (PATH)	93.150	49,402
Developmental Disabilities Basic Support and Advocacy Grants: Community Employment	93.630	86,077
Housing Unlimited	93.630	34,229
Creating Meaningful Lives	93.630	100,000
		220,306
Community Mental Health Services Block Grant: Wrap-around Respite Grant	93.958	42,377
Hispanic Services	93.958	60,409
Juvenile Justice Diversion Project	93.958	50,000
		152,786
Passed-through Michigan Department of Human Services: Promoting Safe and Stable Families	93.556	13,825
Passed-through Lakeshore Coordinating Council: Substance Abuse Block Grant	93.959	99,910
Methamphetamine Prevention	93.243	61,229
State Incentive Grant	93.243	74,817
		136,046
Total U.S. Department of Health and Human Services		672,275
Total expenditures of federal awards		\$ 714,708

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified on financial statements

Internal controls over financial reporting:

Material weakness(es) identified?

_____ yes x no

Reportable condition(s) identified not

considered to be material weaknesses?

_____ yes x none reported

Noncompliance material to financial

statements noted?

_____ yes x no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes x no

Reportable condition(s) identified not

considered to be material weaknesses?

 x yes _____ none reported

Type of auditor's report issued on compliance

for major programs:

Unqualified

Any audit findings disclosed that are required to be

reported in accordance with Circular A-133,

Section 510(a)?

_____ yes x no

Identification of Major Programs

CFDA Number

Name of Federal Program or Cluster

U.S. Department of Health and Human
Services:

93.958

Community Mental Health Services Block
Grant

93.630

Developmental Disabilities Basic Support
and Advocacy Grants

Dollar threshold used to distinguish

between Type A and Type B programs:

 \$ 300,000

Auditee qualified as low-risk auditee?

_____ yes x no

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted

ALLEGAN COUNTY COMMUNITY MENTAL HEALTH BOARD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2006-1 – All Programs – Allocation of Payroll Costs

Criteria:	OMB Circular A-87, Attachment B, requires charges to federal programs to be supported by personnel activity reports, or in the case of staff who spend 100% of their time on a single federal program, semi-annual certifications.
Condition/Finding:	The Board requested and received reimbursement for salary costs which were allocated to the major programs tested based on predetermined budgets rather than personnel activity reports or approved semi-annual certifications.
Effect:	The Board charged salary costs to the major programs without sufficient documentation as required by OMB Circular A-87.
Recommendation/Comment:	Time records or semi-annual certifications should be kept for all employees to document time spent and costs charged to grant-funded programs.
Corrective Action Plan:	The Board has taken steps to better document actual time charged to federal programs in accordance with OMB Circular A-87.